

Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

24 May 1983

Libyan-Italian Relations: Qadhafi's Link to Western Europe

Summary

A variety of political, economic and historical factors have produced a "special relationship" between Libya and Italy. Both countries consider cooperative relations to be natural and normal, and bilateral links have continued to develop during the 14 years since Qadhafi took power in Libya. We believe that Libyan-Italian relations are likely to remain cooperative, despite periodic strains caused by Qadhafi's erratic and sometimes outrageous behavior. Through a combination of threat and enticement, the Libyan leader has managed to forge ties with Italy that are likely to survive even his most severe periods of international isolation. [redacted]

25X1

Concern about Libya's ability to threaten Italian interests through military and political means has increased in Rome, and we believe that Qadhafi plays on these fears in his efforts to intimidate the Italians. Qadhafi has sought to use ties with Italy to enhance Libyan economic and military strength and to increase Libya's overall influence in Western Europe. Given his past experience in dealing with Italy, where the murder of regime opponents in exile by Libyan assassins had relatively little effect on bilateral relations, Qadhafi probably believes that his freedom of action is greater in Italy than anywhere else in the West. We believe he will attempt to exploit this advantage wherever possible. [redacted]

25X1

Trade and commerce have always been important elements of the Libyan-Italian relationship, with Libya supplying oil

This memorandum was prepared by [redacted] the Maghreb Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. It was coordinated with the Office of European Analysis and the Office of Global Intelligence. Information as of 24 May 1983 was used in its preparation. Questions and comments are welcome and should be directed to Chief, Arab-Israeli Division [redacted]

25X1

25X1

25X1

NESA M#83-10121

~~SECRET~~

25X1

SECRET

25X1

and an attractive export market to Italy. Italian officials, however, tend to exaggerate the importance of trade ties when justifying Rome's efforts to maintain normal relations with the Qadhafi regime. The current oil glut and Libya's resultant cash shortage will probably lessen the importance of economic relations in the short run, especially until a sizeable Libyan debt to several Italian companies is settled. Long-term prospects for strong trade relations are good, however, in part because of Italian involvement in the development of Libyan offshore oil fields that will extend into and past the 1990s. []

25X1

One of Qadhafi's goals in pursuing relations with Italy is to decrease American influence and distance Italy and the rest of Western Europe from the US. Although his efforts thus far have been notably unsuccessful, they will continue, particularly as the deployment of US cruise missiles in Sicily approaches. The Italians, who worry about possible Libyan reaction to US moves in the Mediterranean, will almost certainly continue to push for greater consultations with the US about Libya. They probably will also refuse to join in any sanctions against the Qadhafi regime, unless Italy or its citizens are directly threatened by Libyan actions. []

25X1

* * * * *

Of all the countries of the Western alliance, none has a closer ties with Libya than Italy. Geographical proximity centuries ago brought the two countries together as natural trading partners, but Italy's colonial presence in the first half of this century provided the relationship with unique qualities that have extended to the present. The Italians have always been wary of Mu'ammarr Qadhafi, but have continued to deal with the mercurial Libyan leader as a matter of course. Commercial relations have flourished, despite some problems, during the years since Qadhafi took power in 1969, with Libya providing both an enticing export market for key Italian industries and a source of oil to meet part of Italy's energy needs. Economics are at the heart of the relationship, but political and security aspects have gained increased prominence in recent years as the radical and sometimes aggressive policies of Qadhafi's regime have added tension to the relationship. []

25X1

We believe that Qadhafi utilizes both positive and negative leverage in dealing with Italy, in a deliberate and consistent pattern of intimidation. The Libyan leader has long displayed a penchant for verbal bullying and has discovered that such tactics are sometimes useful in achieving his goals. The Libyans have committed outrageous acts in Italy with little resulting damage to overall relations; Qadhafi literally has gotten away with murder on Italian soil. []

25X1

SECRET

25X1

In our judgment, the Italians do draw a line at which Qadhafi's actions become unacceptable, for example, if Italian nationals or Western diplomats in Rome are physically threatened. However, the intricate nature of Rome's relationship with Tripoli produces a tolerance level for Qadhafi significantly above that of other Western nations. We believe Italian willingness to ignore much of Qadhafi's troublesome behavior and Italy's susceptibility to various forms of Libyan pressure have encouraged the Libyan leader to employ a "carrot and stick" approach with Italy, as he pursues the principal goals of developing the Libyan economy, gaining influence in Western Europe, undermining Italy's relations with the US, and enhancing Libya's military strength. [REDACTED]

25X1

In recent years, Italian officials have grown increasingly concerned about Libya's capabilities to threaten Italy's security, especially since the Gulf of Sidra incident in 1981 when Libyan and US aircraft engaged in a brief clash. Probable Libyan incursions into Italian airspace, one near the NATO base at Comiso in August 1982 also have alarmed Italian officials. The buildup of Libya's armed forces, Qadhafi's ability to threaten thousands of Italian workers living in Libya, and Rome's fears of increased Libyan efforts to buy influence in Italy have combined to produce what some Italians call "the threat from the South." [REDACTED]

25X1

Natural Trade Partners

Geography has long made commerce a central and enduring aspect of Libyan-Italian relations. "Peaceful economic penetration" of Libya began shortly after Italy reemerged as a united state in the late nineteenth century, several decades before Italy's full colonization was completed in 1931. By the 1970s, Italy's growing petroleum needs combined with Libya's desire for a rapid development to produce large-scale trade between the two countries. [REDACTED]

25X1

This trading relationship frequently is cited by Italian officials as a factor in their inability to take a harder line with the Qadhafi regime. The US Embassy in Rome recently noted that the Libyans also stress this theme, loudly proclaiming that billions of dollars for Italy are at stake in the relationship. Aggregate trade data, however, indicate that importance of overall trade is exaggerated by the Italian side (see table). The Libyan market accounted for only three percent of Italy's total exports in 1982, and with its oil revenues down at least in the short run, Libya has become less attractive for some Italian exporters. [REDACTED]

25X1

In certain areas of trade, however, Libya is disproportionately important to many Italian companies, providing advantages that Qadhafi has been quick to exploit. Last year, for example, when Libya's outstanding debt to Italian companies reached \$1 billion, the US Embassy reported that the Italians

SECRET

25X1

decided to accept Libyan arguments which stressed the need for more oil purchases to allow Libya to meet outstanding payments. The two countries concluded a "technical agreement" which obliged the Italian State Energy Company (ENI) to increase its purchases of Libyan crude, after the Italians retreated from an initial position which would have forced Qadhafi to reach into Libya's foreign reserves to meet the obligations. Libyan deputy leader Abd al-Salam Jallud, who negotiated the agreement, was able to demand Italian compliance because a large percentage of the firms involved were uncovered by insurance and numerous small- and medium-sized Italian exporters faced serious financial difficulties. [REDACTED]

25X1

Following the agreement, Libyan exports to Italy increased from \$421 million in the second quarter of 1982 to \$766 million in the fourth quarter, and the debt apparently began to be paid off. [REDACTED]

25X1

Military Trade Relations

Libya has provided a lucrative market for Italian arms manufacturers. Arms deals concluded in the mid-1970s, when military related transfers reached a level of several hundred million dollars per year, are being honored [REDACTED] and negotiations for future contracts continue. The US Embassy reports that it has no knowledge of any new contracts signed since 1981 [REDACTED]

25X1

25X1

25X1

Despite US concerns about enhancing Libyan capabilities, the Italians in the past consistently justified their arms supply relationship with Libya by arguing that it offered an alternative to the Soviets, provided further leverage to "moderate" Qadhafi, and was important to Italian industry. [REDACTED]

25X1

Qadhafi has taken advantage of Italian willingness to provide arms to acquire a variety of weapons, including SF-260 trainer/light attack aircraft (which were used in Chad), four "Wadi-class" guided missile patrol boats, 155-mm self-propelled howitzers, G-222 transport aircraft, and 20 CH-47 Chinook helicopters. [REDACTED]

25X1

The Libyans, however, will probably encounter resistance in

SECRET

25X1

considering new contracts until their payment problems are further resolved. [REDACTED]

25X1

25X1

[REDACTED]

The Libyans have been unable to acquire significant Italian assistance for their nuclear energy program. Wary of Qadhafi's motives, the Italians have avoided cooperative activities in the nuclear field, but Libyan attempts to promote them will undoubtedly continue. [REDACTED]

25X1

Petroleum Development: More Libyan Enticements

The development and exploitation of Libya's petroleum sector is another area that has intertwined the two countries. As early as May 1971, [REDACTED] Jallud was promoting the advantages of direct Italian-Libyan cooperation in the oil sector. We believe that the combination of Libya's need for Western technology and Italy's interest in obtaining what could be a substantial return on its investment will produce a cooperative relationship in this area for the foreseeable future. [REDACTED]

25X1

25X1

Involvement in the development of Libya's offshore oil fields provides a significant incentive for Italy to maintain good relations with the Libyan regime. In 1977 the Italian oil company AGIP, ENI's exploration component which has small onshore concession in Libya, discovered several enormous oil fields in waters northwest of Tripoli that could contain recoverable reserves of 5 billion barrels or more of oil. In return for developing and exploiting this area, AGIP will receive 19 percent of future production under its agreement with the Libyan National Oil Company. In 1982, a construction contract was awarded to ENI's engineering subsidiary, Snamprogetti, for a 30-well, 150,000 barrel per day (b/d) platform in one of the offshore areas, the Bouri oilfield. Initial output is scheduled for 75,000 b/d by 1986, and four additional platforms and a gas injection program planned for later years could raise Bouri production to over 600,000 b/d. At this rate, Italy's equity share would total more than 100,000 b/d. Other fields may well be developed in later years offering Italy even larger shares of production and construction contracts. With adjacent offshore gas discoveries, some Italian energy officials are also considering gas imports, possibly through a connection to the trans-Mediterranean pipeline from Algeria to Sicily. [REDACTED]

25X1

Italian firms are additionally involved in the growing

SECRET

25X1

Libyan petrochemical sector. Press reports indicate that most of the work at the Ras Lanouf petrochemicals complex is undertaken by Italian companies, including a 220,000 b/d refinery being built by the Saipem firm at a cost of \$40 million. Bids for major new ammonia and urea plants to be constructed at Sirte have been announced and Italian firms are competing for those contracts. []

25X1

In the petroleum sector, we believe that a mutually advantageous situation will continue to exist between Libya and Italy. Qadhafi probably would not expel Italian oil workers and technicians because Libya requires their expertise, especially in offshore development. At the same time, however, the Italians have a substantial interest in maintaining cooperative relations over the long term, as offshore operations will extend into the 1990s and beyond. Billions of dollars are involved, as well as a potentially substantial source to meet some of Italy's future oil needs. []

25X1

Negative Leverage: Italian Concern and Qadhafi's Revenge

Italian governments also attempt to maintain as normal a relationship as possible with Qadhafi for reasons that have little to do with commercial interests. As one Italian Ministry of Foreign Affairs official told the US Embassy, Italy must recognize that there are "negative advantages" to dealing with Qadhafi which involve keeping the Libyan leader from committing acts harmful to Italy that he could pursue if relations deteriorate. Qadhafi possesses the capability to threaten Italy and its interests in several ways, and has not hesitated to take advantage of his position as a "threat from the South." []

25X1

We believe that Qadhafi probably derives special satisfaction from his efforts to bully the Italians because of Libya's experience under Italian colonial rule. Pacification was a brutal process in Libya, where indiscriminate bombing, mustard gas, and concentration camps were among methods employed by the Italians to subdue a determined population. In the end, the Italians killed or were indirectly responsible for the deaths of one half of Libya's population. Additionally, Qadhafi's personal background is a factor: his father was a bedouin nomad who reportedly was a hero in the 1915 battle of Qasr bu hadi against the Italians, and his tribe never joined the ranks of the "submitted" tribes and is still considered fiercely nationalistic and symbolic of anticolonialism. []

25X1

The Libyan leader's rhetoric often recalls Italy's colonialist past. He sometimes has referred to Italian officials as "fascists" and recently condemned Libya's former monarch, Idriss al-Sanussi, as an "agent of Britain and the United States and servant of the Italians." Jallud's behavior during his visits to Rome [] is indicative of the contemptuous attitude that the Libyan regime sometimes displays toward Italy. In our judgment,

25X1

25X1

SECRET

25X1

Qadhafi's burning hatred of imperialism and colonialism stems at least partly from Libya's bitter experience under colonial rule, and whenever possible he will attempt to use any leverage that Libya possesses to intimidate the Italians. [REDACTED]

25X1

The Military Threat

Qadhafi frequently has criticized NATO nuclear installations in southern Italy. During his January 1983 visit to Romania, for example, Qadhafi publically warned that Libya "cannot regard apathetically attempts to install some rocket bases in Italy," according to the US Embassy in Bucharest. Qadhafi's most extreme rhetoric followed the clash in July 1981 between US Navy F-14s and Libyan SU-22s in the Gulf of Sidra, when he threatened to destroy the NATO bases if the US again "attacked" the Gulf. [REDACTED]

Italian defense officials take the Libyan threats seriously, [REDACTED] and are worried that their air defenses in the south are inadequate for the defense of national, US, and NATO military installations in Sicily. They express concern about an incident which occurred in August 1982, when two unmarked fighter aircraft--believed by the Italians to be Libyan--were reported to have overflowed Sicily near Comiso, where a base to house US ground-launched cruise missiles is under construction. [REDACTED] notes Italian suspicion that the mission of the flight was either reconnaissance and photography of Comiso or a test of Italian reaction to such an intrusion. [REDACTED]

25X1

25X1

25X1

25X1

We believe that while Qadhafi's saber-rattling will not be translated into military action, Italian fears are genuine and reflect a concern that Qadhafi's periodic confrontations with the US might provoke a Libyan retaliation aimed at Italian territory. Italian officials repeatedly ask US representatives for substantial advance warning of US naval exercises in the area. [REDACTED]

25X1

Libyan Investment in Italy

The controversial issue of Libyan investment activities in Italy has received a great deal of attention in the Italian press. Libya's 13.6 participation in Fiat's capital, which according to Embassy reporting constitutes the largest single Arab holding in Italy, is by far the most publicized of these investments. In our judgment, both Qadhafi and the Italians probably view the Fiat investment as a boost for Libya's prestige and influence in Italy. [REDACTED]

25X1

Press and embassy reporting note significant Libyan investment in Sicily and the small island of Pantelleria in the areas of agriculture, real estate, fishing, and tourism. Businessman Michele Papa, called "Qadhafi's number one agent in Eastern Sicily" by a high level Sicilian law enforcement officer, has been provided with Libyan funds for several years to use in

SECRET

25X1

such projects as the construction of Sicily's first mosque in Catania, according to the US Consulate in Palermo. In late 1981, the consulate reported that the Libyan ambassador in Rome paid a visit to Sicily, stressing the desirability of deeper cultural and commercial Sicilian-Libyan relations and suggesting to the mayor of Palermo that Libyan wealth could be available for his city. [REDACTED]

25X1

The Libyans have attempted to buy access to the Italian media. They effectively control, through the office of the Libyan news agency in Rome, a private television station which since 1979 has broadcast a number of pro-Qadhafi programs and several discussions about his Green Book theories. A well-placed Italian journalist told a US Embassy official that Qadhafi receives interviews in the press because he pays well for them, and has been successful in purchasing either silence or support in the Italian media. [REDACTED]

25X1

25X1

25X1

[REDACTED] In mid-April of this year, [REDACTED] noted that Italian police had arrested two individuals attempting to photograph the Sigonella naval air station in Sicily; these men had been detained in 1979 for the same offense, and their passports contained several entries indicating trips to Libya. [REDACTED]

25X1

25X1

25X1

Libyan Terrorism and the Threat to Italians in Libya

Terrorism has been one of Qadhafi's bluntest instruments to project his power for several years, and Italy has not been spared exposure to the activities of Libyan "hit squads." In the spring of 1980, two Libyan exiles were murdered in Rome by assassins [REDACTED]

25X1

[REDACTED] Italian public opinion was outraged, but the Libyan Peoples' Bureau in Rome, echoing Qadhafi, reacted defiantly by threatening "liquidation" of exiles who refused to return to Libya and declaring that "Governments which protect these thieves and criminals become their accomplices." Italian security officials moved quietly but quickly to increase security measures, as they have done when US officials in Italy have been threatened, and the Libyan assassination activity ended. [REDACTED]

25X1

25X1

During the Italian crackdown on the assassination campaign in 1980, however, Qadhafi moved to retaliate by striking at Italians working in Libya, whose vulnerable position is of constant concern to Rome. Whenever a Libyan was detained in Italy, Tripoli would reciprocate by harassing and arresting Italian citizens in Libya. [REDACTED]

25X1

SECRET

25X1

25X1

[REDACTED]

More recently, the Italians again raised with US Embassy officials the issue of possible Italian "hostages" in Libya, following US military maneuvers in February 1983 designed to deter Qadhafi's planned overthrow of the Sudanese government. [REDACTED]

25X1

Italy probably will continue its pattern of reacting firmly but quietly if Libyan assassination teams reappear in Italy, in our judgment. Qadhafi will not hesitate to exploit again the vulnerability of Italians in Libya, and officials in Rome are painfully aware that this option remains open to him. [REDACTED]

25X1

25X1

SECRET

25X1

25X1

Implications for the US

Italy remains a firm friend and ally of the US, regardless of Qadhafi's threatening statements and condemnation of the "influence of the Americans" in Italy. Libyan frustration and anger in this regard were reflected most recently by a propaganda attack on Italian Foreign Minister Colombo, who had defended US military maneuvers in February 1983, designed to deter Qadhafi's plans to overthrow the Sudanese Government. [REDACTED]

25X1

At the same time, however, the US Embassy in Rome has noted that the Italians view cooperative relations with Libya as a normal outgrowth of the various factors that bind the two countries. US pressure on the Qadhafi regime is therefore viewed with little enthusiasm by Italian officials, who have repeatedly stressed that they must live with Qadhafi for better or worse. We believe that the Italians will continue to criticize what they perceive as a lack of Italian-US bilateral consultations about Libya, and will also resist joining in economic sanctions aimed at Tripoli unless the Libyans directly threaten Italy's vital interests. [REDACTED]

25X1

For his part, Qadhafi will undoubtedly pursue his efforts to separate Italy--and by extension, all of Western Europe--from the US. He previously has placed the blame for strains in Libyan-Italian relations on excessive "US political and economic influence," and could return to this theme at any time for propaganda purposes. [REDACTED]

25X1

We believe that he will continue to utilize Libyan leverage to try to discredit the US and offset US policy interests in Italy. As deployment of US cruise missiles at Comiso approaches, for example, Qadhafi's voice will increasingly join Soviet propaganda in condemning NATO's planned missile modernization

SECRET

25X1

program and encouraging the European Peace movement. While the US Embassy in Rome recently reported that there is currently no terrorist threat to Comiso, concern persists that Libyan-backed operatives could incite antideployment demonstrations. [REDACTED]

25X1

Outlook

In our judgment, there is little likelihood that any major changes will occur in the basically cooperative nature of Libyan-Italian relations. The links that exist between the two countries have been strong enough to endure Qadhafi's behavior, and will probably continue to do so in the absence of what the Italians would consider unacceptable activity--severe harassment of Italians in Libya, for example. Cooperative relations may continue in spite of Qadhafi rather than because of him, but the geographic, economic, political, and historical factors that bind the two countries will transcend the problems produced by Libya's current regime or any successor. [REDACTED]

25X1

We also believe that Qadhafi remains convinced of the efficacy of his "Italian policy" of threat and enticement and will therefore continue to employ it in his relations with the Italians. Rome's position that it has no choice but to deal with Qadhafi has provided the Libyan leader with ample leeway to exploit the relationship, whether through inducement or intimidation. For Qadhafi, Italy will continue to be a hedge against total isolation in the West. [REDACTED]

25X1

Libyan-Italian Trade: 1975-1982 (million US \$)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
-Libyan Merchandise								
Exports to Italy (fob)*	1,334	1,606	1,636	2,156	2,353	3,154	3,034	2,497
-% total Libyan Exports	21.5	18.7	15.9	22.2	15.4	13.8	19.9	18.5
-% Italian Imports (fob)	3.2	3.8	3.2	3.1	3.3	3.5	3.7	3.1
-Libyan Merchandise								
Imports from Italy (fob)**	831	739	939	1,000	1,920	2,530	4,280	2,114
-% total Libyan Imports	26.0	25.5	27.6	24.1	26.8	28.3	30.8	27.8
-% Italian merchandise								
Exports (fob)	2.4	2.0	2.1	1.8	2.7	3.3	5.7	2.9

*Dominated by crude petroleum.

**Mostly manufactured items (semi-finished and construction goods, machinery, and transportation equipment).
Figures exclude military trade.

CONFIDENTIAL

25X1

NESA M#83-10121

SUBJECT: Libyan-Italian Relations: Qadhafi's Link to
Western Europe

Distribution:

~~1 - DCI~~
~~1 - DDCI~~
1 - Exec Director
1 - DCI/SA/IA
1 - Exec Registry
1 - DDI
1 - ADDI
1 - DDI Registry
1 - OEA
1 - OGI
1 - C/NIC
1 - C/PES
1 - PDB Staff
4 - CPAS/IMD/CB
1 - CPAS Foreign Liaison Staff
1 - NIO/NESA
1 - D/NESA
2 - NESA/PS
1 - NESA/AI/Br

Outside Distribution:

1 - Geoffrey Kemp/NSC Staff
1 - Dennis Blair/NSC Staff
1 - DIA/JS1/5B/MB 861 G/Pentagon
1 - DIA/DB 3C/Arlington Hall Station
1 - Col. Al Prados/Pentagon
1 - Nicholas Veliotis/Asst. Sec. of State
1 - Richard Burt/Asst. Sec. of State
1 - Hugh Montgomery/Director/INR/State
1 - Haywood Rankin/INR/NESA/State
1 - Allen Lukens/INR/WEA
1 - Pat Garland/INR/WEA
1 - Peter Constable/Dep. Asst. Sec. of State/NESA/State
1 - George S. Harris/Director/NESA/State
1 - Dave Peterson/Dept. of Commerce
1 - Ken Steins/Main Treasury
1 - Roger Pajak/Main Treasury

DDI/NESA/AI/M [redacted] 24 May 1983

25X1

SECRET